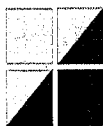


Public Employees Health Program

MANAGEMENT LETTER

For the Year Ended June 30, 2012



LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS



LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

October 3, 2012

Utah State Retirement Board
Public Employees Health Program
560 E 200 S
Salt Lake City, UT 84102

Dear Members of the Board:

We have audited the financial statements of **Public Employees Health Program** (the Program) for the year ended June 30, 2012 and have issued our report thereon dated October 3, 2012. As part of our audit, we made a study and evaluation of the Program's system of internal control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America and have issued our report thereon dated October 3, 2012.

The purpose of this letter is to recommend certain matters which came to our attention during the course of the audit, which we believe will strengthen internal control and operating efficiency. These matters are not considered to be material weaknesses as defined in our report on internal control referred to above. These matters, together with our recommendations, are presented below for your consideration.

Current Year Comments and Recommendations

Month-End Closing Process

In the course of performing fieldwork, we noted the Program, due to the change in personnel during the year, has not implemented a formal month-end closing process. Because an informal month-end close process exists, financial data may lack reliability, timeliness, and/or accuracy. Informal month-end closing processes may also lead to material errors in the accounting records as well as allow for possible irregularities, including fraud to exist and continue without notice. We recommend that the Program formalize their month-end closing processes and in our discussions with management, we understand that they are currently working on implementing a formal process once the 2012 fiscal year is finalized.

Included in a month-end closing process should be the reconciliation from month-to-month of significant or material account balances. The more significant items noted during our fieldwork that will benefit from a monthly reconciliation process are:

- Claims paid expense account
- FLEX liability accounts
- Accounts payable accounts
- Investment accounts; investment income, realized gains (losses), unrealized gain (losses)

Management Response

We agree and are currently in the process of implementing a formal month end closing process that will include month to month reconciliations of significant account balances.

Internal Audit Controls over Claims

While performing our testing over claims paid, we noted a few items that were over \$12,000 (the threshold for which all items are selected for auditing) were not selected for audit. Upon further inquiry with IT, this occurred in situations where claims were resubmitted for correction or resubmitted after an initial denial, which allowed the resubmitted claim to bypass the audit filter.

We recommend IT review the process used to identify items for audit to ensure that all items meeting the threshold are selected for audit.

Management Response

We agree and will work with the claims department and the IT department for ways to ensure that items meeting the audit threshold are selected for audit.

Risk Pool Financial Statement Allocation

Per the request of the Board of Directors, we performed additional testing over the risk pool financial statement allocation. During our testing of investment allocations we found the method used to allocate the investment holdings and investment income to the risk pools is inconsistent and recommended to management that this be evaluated and updated to a more consistent method. The finance staff is in the process of developing a more consistent method of allocating the investment holdings and investment income to the risk pools, no management response is provided in this letter.

Prior Year Management Letter Points

Quality Control Audit of Benefit Codes

During our June 30, 2011 audit we noted that no formal audit or review exists to verify the accuracy of the input or update of group benefit codes. Currently, when benefit codes are updated for a group, a Plan Coordinator will process claims from the updated benefit codes to verify the accuracy of the payment.

We recommended that a formal audit or review be performed to provide additional assurance over benefit code accuracy and it allows for the Program to identify when an error or control has failed.

During the June 30, 2012 audit, we noted that an informal audit of the input or change of a benefit code is being performed.

Payroll Audit of Long-Term Disability Payments

During our June 30, 2011 audit we noted that the payroll audit performed for long-term disability is not formally documented. The lack of documentation in regards to an audit or review does not allow management in a timely manner to identify when and error may have occurred. Nor is there an efficient way for the management of the Program to obtain assurance that an audit or review has actually been performed.

We recommended the Program formally document the payroll audit being performed for long-term disability recipients.

During the June 30, 2012 audit, we were able to verify that the Program has formally documented the payroll audit being performed for long-term disability recipients.

This letter, by its nature, contains only our comments and recommendations on deficiencies observed in the course of our audit. It does not include our observations on the many strong features of the Program's system of internal control. Our comments are not to reflect on the integrity or capabilities of anyone in your organization. Our interest is to help you improve the operations and controls of the Program.

We appreciate the courteous assistance of your personnel during the course of our audit. Should you have any questions regarding the above recommendations and comments, or require assistance in their implementation, please feel free to contact us.

Sincerely,



Martha Hayes, CPA
Partner